

# Precedent Transaction Analysis

(\$ In millions)

Target/Acquirer	Date Announced	Transaction Value		Share Value as Multiple of			5 yr. Est. EPS Growth <sup>(a)</sup>	NTM P/E / 5yr. EPS Growth	Enterprise Value as Multiple of			Unaffected Market		Enterprise Value / Members <sup>(b)</sup>	Eq. Value/ Book Value
		Equity Value	Enterprise Value	LTM EPS	NTM EPS Est. <sup>(a)</sup>	NTM EPS Est. <sup>(a)</sup>			LTM Revenue	EBITDA	EBIT	1 Month Prior	1 Day Prior		
RightCHOICE Managed Care/ WellPoint Health Networks	10/18/01	\$1,300.0	\$1,309.1	24.9x	21.9x	20.1x	15.0%	1.46x	1.15x	12.2x	15.3x	46.3%	56.5%	\$465.7	3.6x
BCBSUW/ <sup>(c)</sup> United Wisconsin	12/22/00	128.3	120.1	N.A.	N.A.	N.A.	N.A.	N.A.	0.20	N.A.	N.A.	N.A.	N.A.	190.5	0.6
Cerulean/ <sup>(d)</sup> WellPoint Health Networks	11/29/00	700.0	700.0	N.A.	N.A.	N.A.	N.A.	N.A.	0.36	9.7	11.4	N.A.	N.A.	391.5	2.1
Coventry Healthcare/ WellPath Community Healthplans	07/07/00	25.5	25.5	N.A.	N.A.	N.A.	N.A.	N.A.	0.14	N.A.	N.A.	N.A.	N.A.	196.0	0.1
United Payors & United Providers BCE Emergis	02/06/00	552.4	561.6	23.5	17.0	N.A.	20.0%	0.85	6.00	13.1	14.4	64.9%	31.7%	N.A.	4.4
Rush Prudential/ WellPoint Health Networks	12/09/99	206.1	206.1	13.7	N.A.	N.A.	N.A.	N.A.	0.42	N.A.	N.A.	N.A.	N.A.	680.7	N.A.
Harris Methodist/ PacificCare Health Systems, Inc.	11/04/99	121.5	121.5	N.M.	N.A.	N.A.	N.A.	N.A.	0.16	N.M.	N.M.	N.A.	N.A.	404.9	N.A.
NYLCare Texas (Aetna)/ BCBS Texas	09/14/99	420.0	420.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	909.1	N.A.
BCBS Colorado/ Anthem	03/29/99	140.0	205.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	383.2	N.A.
BCBSNH/ Anthem	01/28/99	120.0	120.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	331.5	N.A.

(a) Source: Latest I/B/E/S or First Call consensus estimates.

(b) Includes Commercial, Medicare, Medicaid and PPO members.

(c) Equity value based on UWZ average share price 1 week prior to announcement of \$4.08, but minimum share price for transaction to be approved by the Wisconsin Insurance Commission is \$5.50.

(d) Cerulean figures as per WATER Management.



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		Equity Value	Enterprise Value	LTM EPS	NTM EPS Est. <sup>(a)</sup>	NFY EPS Est. <sup>(a)</sup>			LTM Revenue	EBITDA	EBIT	1 Month Prior	1 Day Prior		
Prudential HealthCare/ <sup>(c)</sup> Aetna Inc.	12/10/98	1,000.0	1,000.0	N.M.	N.A.	N.A.	N.A.	N.A.	0.15	N.A.	N.M.	N.A.	N.A.	151.5	N.A.
Coventry (Florida) / BCBS Florida	10/15/98	95.0	95.0	N.A.	N.A.	N.A.	N.A.	N.A.	0.42	N.A.	N.A.	N.A.	N.A.	688.4	N.A.
Cerulean/ <sup>(d)</sup> WellPoint Health Networks	07/09/98	500.0	500.0	50.0	N.A.	N.A.	N.A.	N.A.	0.31	10.4	13.6	N.A.	N.A.	609.8	2.5
HealthPartners of Arizona/ United HealthCare	06/11/98	235.0	235.0	N.A.	N.A.	N.A.	N.A.	N.A.	0.60	N.A.	N.A.	N.A.	N.A.	461.7	N.A.
Kaiser Perm. Southwest Division/ Sierra Health Services	05/29/98	124.0	124.0	N.M.	N.A.	N.A.	N.A.	N.A.	0.61	N.M.	N.M.	N.A.	N.A.	1,137.6	N.A.
Humana Inc./ United HealthCare	05/28/98	5,538.7	6,385.7	30.1	19.2	13.8	20.0%	1.16	0.74	14.7	20.1	28.3%	22.1%	1,458.7	3.5
NYLCare/ <sup>(e)</sup> Aetna Inc.	03/16/98	1,291.0	1,291.0	N.M.	N.A.	N.A.	N.A.	N.A.	0.42	N.M.	N.M.	N.M.	N.M.	586.8	N.A.
John Alden Financial Corp./ Fortis	03/09/98	559.0	650.8	39.5	12.1	12.1	N.A.	N.M.	0.41	13.9	26.6	3.4%	(0.6%)	N.A.	1.2
Oxford Health Care/ <sup>(f)</sup> Texas Pacific Group Investment	02/24/98	782.3	782.3	N.M.	N.M.	N.M.	30.0%	N.M.	0.18	N.M.	N.M.	5.8%	(22.1%)	406.4	1.2

(a) Source: Latest I/B/E/S or First Call consensus estimates.

(b) Includes Commercial, Medicare, Medicaid and PPO members.

(c) Revenue figure includes premiums and fees only.

(d) Cerulean LTM EBITDA and EBIT multiples are LQA. LTM multiples are not meaningful.

(e) Enterprise value calculation assumes maximum \$300 million earn-out payment discounted at 12.0%; members include HMO &amp; Indemnity.

(f) TPG agreed to purchase \$350 million in preferred stock. The preferred shares come with warrants to purchase 22.53 million shares of Oxford common stock at a strike price of \$17.75.



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		Equity Value	Enterprise Value	LTM EPS	NTM EPS Est. <sup>(a)</sup>	NTM EPS Est. <sup>(a)</sup>			LTM Revenue	EBITDA	EBIT	1 Month Prior	1 Day Prior		
Principal Health Care/ Coventry Corp.	11/03/97	\$375.0	\$376.5	N.M.	N.M.	N.M.	N.M.	N.M.	0.27x	N.A.	N.A.	N.M.	N.M.	\$657.1	1.6x
Physicians Corp of America/ Humana Inc.	06/02/97	271.8	403.8	N.M.	N.M.	N.M.	18.0%	N.M.	0.32	N.M.	N.M.	43.6%	12.0%	354.8	N.M.
ChoiceCare/ Humana Inc.	06/05/97	250.0	250.0	51.3x	N.A.	N.A.	N.A.	N.A.	0.86	N.M.	N.M.	N.A.	N.A.	1,277.3	5.0
Physicians Health Services/ Foundation Health Systems	05/08/97	278.6	278.6	N.M.	N.M.	N.M.	14.0%	N.M.	0.58	N.M.	N.M.	57.0%	8.6%	747.4	2.9
Healthsource/ CIGNA Healthcare	02/28/97	1,415.6	1,677.8	48.3	31.8x	34.5x	N.A.	N.A.	0.99	18.2x	29.9x	28.9%	65.7%	1,408.3	3.7
Foundation Health/ Health Systems International	10/01/96	2,161.7	2,255.6	13.0	12.6	12.9	20.0%	0.63x	0.68	9.4	12.6	23.0%	8.9%	1,462.8	6.2
FHP International Corporation/ PacifiCare Health Systems, Inc.	08/05/96	2,020.6	2,139.9	N.A.	21.9	25.2	15.0%	1.46	0.70	8.3	11.8	26.7%	26.7%	1,118.6	1.7
U.S. Healthcare/ Aetna Life & Casualty	04/01/96	8,927.8	8,179.0	23.5	20.2	21.1	15.0%	1.35	2.33	14.6	15.5	16.7%	24.1%	2,863.8	8.8
HealthWise of America, Inc./ United HealthCare	02/01/96	281.2	281.8	35.4	25.5	26.0	25.0%	1.02	1.39	17.5	18.7	16.1%	8.3%	1,826.2	8.7
PHP Inc./ <sup>(c)</sup> United HealthCare	11/28/95	139.0	139.0	21.2	N.A.	N.A.	N.A.	N.A.	0.84	N.A.	12.7 <sup>(d)</sup>	N.M.	N.M.	1,053.0	N.A.
EMPHESYS Financial Group/ Humana Inc.	08/10/95	660.5	716.9	10.4	10.2	10.7	13.0%	0.78	0.46	6.0	7.1	63.9%	37.0%	554.4	1.8
Graduate Health Systems/ Health Systems International	07/11/95	100.0 <sup>(e)</sup>	100.0 <sup>(e)</sup>	N.A.	N.A.	N.A.	N.A.	N.A.	0.50	N.A.	N.A.	N.M.	N.M.	1,020.4	N.A.
MetraHealth/ United HealthCare	06/21/95	2,000.0 <sup>(f)</sup>	2,000.0 <sup>(f)</sup>	12.5	8.7	10.0	N.A.	N.A.	0.50 <sup>(g)</sup>	N.A.	N.A.	N.M.	N.M.	187.4 <sup>(h)</sup>	N.A.

(a) Source: Latest I/B/E/S or First Call consensus estimates.

(b) Includes Commercial, Medicare, Medicaid and PPO members.

(c) Acquisition includes 117,000 members and more than 3,000 health care providers in a 45 hospital network.

(d) 1995 EBIT of \$11.5 million calculated using the 1994 EBIT of \$8.5 million and a 35% growth rate based on 94-95 revenue growth.

(e) Acquisition price includes the purchase of Founders Health, a primary care facility management company which manages 60 primary care physician practices, an HMO and other assets.

(f) Does not include seller financing portion of \$150 million.

(g) Estimate based on three month revenues of \$1,010 million, annualized in order to approximate annual revenues.

(h) Includes total members of 10,674,000, which include 413,000 HMO members, 243,000 POS members, 865,000 PPO members, 783,000 Indemnity members and 8,370,000 ASO members.

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(\$ in millions)

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		Equity Value	Enterprise Value	LTM EPS	NTM EPS Est. <sup>(a)</sup>	NTM EPS Est. <sup>(a)</sup>			LTM Revenue	EBITDA	EBIT	1 Month Prior	1 Day Prior		
Provident Life & Accident (group med. bus.)/Healthsource	12/21/94	\$231.0 <sup>(c)</sup>	\$231.0 <sup>(c)</sup>	9.9x <sup>(d)</sup>	N.A.	N.A.	N.A.	N.A.	0.59x <sup>(e)</sup>	5.0x <sup>(e)</sup>	7.8x <sup>(e)</sup>	N.M.	N.M.	\$105.0 <sup>(f)</sup>	N.A.
CareNetwork/ Humana Inc.	10/3/94	122.8	118.0	N.M.	6.9x	N.M.	N.A.	N.A.	0.80	N.M.	N.M.	143.4%	132.2%	1,349.1	8.5x
GenCare/ United HealthCare	9/12/94	514.2	462.5	28.7	21.6	25.0x	20.0%	1.08x	2.14	17.6	18.7	57.0%	20.3%	2,383.8	7.1
InterGroup/ Foundation Health	7/29/94	662.2	643.2	33.3	24.7	27.1	18.0%	1.37	1.50	17.6	19.2	46.9%	36.8%	1,904.8	N.A.
TakeCare/ FHP International	3/4/94	1,079.5	1,016.7	26.2	22.2	22.2	15.0%	1.48	1.00	13.0	14.9	54.6%	19.0%	1,290.2	4.5
Ramsay-HMO/ United HealthCare	2/15/94	462.9	415.5	29.0	25.5	26.5	24.0%	1.06	1.21	15.9	19.2	90.8%	17.8%	2,352.3	N.A.
Complete Health Services/ United HealthCare	1/19/94	207.8	216.2	46.5	N.A.	N.A.	N.A.	N.A.	0.83	34.8	42.6	N.M.	N.M.	1,108.7	N.A.
Health Net/ Qual-Med Inc.	8/30/93	455.3	626.5	12.6	N.A.	N.A.	N.A.	N.A.	0.46	6.8	9.4	N.M.	N.M.	682.9	N.A.
HMO America Inc./ United HealthCare	5/13/93	403.4	441.0	29.6	23.5	25.6	20.0%	1.17	1.14	20.4	24.2	85.1%	33.9%	1,514.8	5.9
Comprecare/ TakeCare	3/15/93	108.8	119.2	40.3	N.A.	N.A.	N.A.	N.A.	0.49	8.0	20.2	N.A.	N.A.	644.2	N.A.
Mean		\$880.2	\$903.4	28.4x	19.1x	20.9x	18.9%	1.14x	0.84x	13.7x	17.5x	47.5%	28.4%	\$933.0	3.9x
Median		411.7	417.8	28.7	21.6	22.2	19.0%	1.16	0.59	13.1	15.4	46.3%	22.1%	685.7	3.5
High		8927.8	8179.0	51.3	31.8	34.5	30.0%	1.48	6.00	34.8	42.6	143.4%	132.2%	2863.8	8.8
Low		25.5	25.5	9.9	6.9	10.0	13.0%	0.63	0.14	5.0	7.1	3.4%	(22.1%)	105.0	0.1

(a) Source: Latest I/B/E/S or First Call consensus estimates.

(b) Includes Commercial, Medicare, Medicaid and PPO members.

(c) Restated on May 1, 1995 from \$310 million to \$231 million in cash (\$131 million) and non-convertible preferred stock (1,000,000 shares @ \$100 per share).

(d) Includes after tax adjustments for corporate overhead saving of \$4.0 million, internal cost savings of \$3.7 million, and HMO overlap of \$2.4 million and assumes net income of \$13.3 million, as estimated by BAS.

(e) Includes before tax adjustments for corporate overhead savings of \$6.7 million, internal cost savings of \$6.2 million, and HMO overlap of \$4.0 million as estimated by BAS.

(f) Reflects all managed care, indemnity, and ASO members.



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## Appendix C: WACC Analysis

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# WACC Analysis

(\$ in millions, except per share data)

I.	Cost of Debt (Kd):	
	Estimated All-In Cost for Company	6.0%
	Marginal Tax Rate	38.4%
	$Kd = 6.0\% \times (1 - 38.4\%) =$	3.7%
II.	Cost of Equity (Ke):	
	Risk Free Rate (10-year T-Bond Yield) <sup>(a)</sup>	5.4%
	Target Beta (see calculation below)	0.86
	Market Risk Premium <sup>(b)</sup>	8.4%
	$Ke = 5.4\% + 0.86 \times 8.4\% =$	12.6%
III.	Weighted Average Cost of Capital (K):	
	Target Debt to Market Cap. Ratio <sup>(c)</sup>	15.1%
	Implicit Market Equity to Market Cap. Ratio	84.9%
	$K = (3.7\% \times 15.1\%) + (12.6\% \times 84.9\%) =$	<u>11.2%</u>

## TARGET BETA CALCULATION:

Comparable Companies	Total Debt	Equity Value <sup>(a)</sup>	Total Mkt. Cap. <sup>(d)</sup>	Debt to Mkt. Cap. Ratio	Debt to Mkt. Equity Ratio	Average Tax Rate	Levered Beta <sup>(e)</sup>	Unlevered Beta <sup>(f)</sup>
Aetna Inc.	\$ 2,085.4	\$ 4,402.8	\$ 6,488.2	32.1%	47.4%	40.0%	0.88	0.68
Cigna Corp.	1,538.0	12,569.0	14,107.0	10.9%	12.2%	33.6%	1.01	0.94
Health Net, Inc.	623.9	2,526.5	3,150.4	19.8%	24.7%	37.2%	0.79	0.68
Humana, Inc.	589.0	2,082.7	2,671.7	22.0%	28.3%	32.7%	0.88	0.74
Oxford Health Plans, Inc.	158.6	2,777.1	2,935.6	5.4%	5.7%	41.1%	1.04	1.01
Trigon Healthcare, Inc.	299.7	2,418.0	2,717.8	11.0%	12.4%	33.0%	0.71	0.66
UnitedHealth Group, Inc.	1,440.0	21,986.7	23,426.7	6.1%	6.5%	37.9%	0.79	0.76
WATER <sup>(g)</sup>	1,336.1	8,519.2	9,855.3	13.6%	15.7%	0.0%	0.82	0.71

## Summary Statistics

Average	15.1%	19.1%	31.9%	0.86	0.77
Median	12.3%	14.0%	35.4%	0.85	0.72

(a) As of November 14, 2001.

(b) Expected risk premia for equities are based on the differences of the S&P 500 historical arithmetic mean returns from 1926 -2000. Source SBBI 2001 Yearbook.

(c) Optimal debt to market capitalization assumed to be the average for comparable companies.

(d) Calculated as Equity Value plus total debt, minority interest (at book value unless otherwise noted) and preferred stock.

(e) Levered betas are predicted betas as per Barra's Betas as of November 14, 2001.

(f) Unlevered beta equals levered beta/[1+((1-tax rate) x debt to equity ratio)].

(g) Equity value and debt figures are 2001E pro forma for acquisition of RightCHOICE.

